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CIVIL SERVICE RETIREMENT TRUST FUND

HEARING

BEFORE THE

SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS

OF THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE HOUSE OF REPRESENTATIVES

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CIVIL SERVICE RETIREMENT TRUST FUND

WEDNESDAY, NOVEMBER 6, 1985

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, DC.

The subcommittee met, pursuant to call, at 10:05 a.m., in room 311, Cannon House Office Building, Hon. Mary Rose Oakar presiding.

Ms. OAKAR. The subcommittee will come to order.

Today, the subcommittee is conducting an oversight hearing on the administration's actions over the past few weeks regarding the investment and withdrawal of civil service retirement trust funds. I hope that during these hearings we will learn more than I have learned at the Social Security hearings, the Banking Committee hearings and other hearings that I have attended about the transfer of securities in this case between the Federal Financing Bank and the civil service retirement fund in early October.

I am deeply concerned by the Treasury Department's reported failure to invest more than $16 billion in civil service retirement trust funds, resulting in a loss of more than $4.57 million per day in interest since October 1 of this year. I am also disturbed by the apparent disinvestment of civil service retirement trust funds last Friday to finance general Government operations.

It appears that the civil service retirement trust fund has been directly affected by the current debt limit crisis. If, in fact, the trust fund has suffered a loss of interest and a reduction in principal, then I am very troubled by the vulnerability of the fund.

It is clear to me that these funds should be held solely for the purpose of providing retirement benefits to civil service annuitants, and should not be manipulated. Other uses of these moneys, which may jeopardize the security of the fund, seem to violate the very nature of such a trust.

It is unfair to penalize civil service employees and annuitants by forcing the fund to assume losses which may approach $1 billion. These are the same people who have seen their retirement program under consistent attack by this administration. Our Nation's retired Federal workers had no role in precipitating the current Government's crisis, and they should not be required to place their retirement security at risk.

It was this administration, not our Nation's senior citizens, who created annual deficits of $200 billion and doubled the national debt in only 5 years. It was this administration, not retired or

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active Federal employees, that brought about the current chaos threatening the financial integrity of this Government.

For these reasons, Congressman Jim Jones and I sponsored an amendment to the House-adopted version of House Joint Resolution 372. The amendment would require the Secretary of the Treasury to deposit to civil service and other Government trust funds amounts equal to the principal and any interest lost through noninvestment, redemption, or disinvestment of these funds.

This amendment would also apply to the Federal old age and survivors insurance trust fund, the Federal disability insurance trust fund, the Federal hospital insurance trust fund, the Federal supplementary medicare insurance trust fund, the railroad retirement account, and the Department of Defense retirement military fund.

Our amendment to House Joint Resolution 372 is needed to protect civil service retirees, Social Security recipients, and others from the permanent loss of trust fund moneys. If the Federal Government is permitted to borrow money from these trust funds to help pay its debts, it is only right that the Government be required to pay any principal and interest lost on the funds. After all, this money does belong to the beneficiaries of these funds and should be returned to them.

It is incumbent upon the Congress to ensure that the civil service retirement, Social Security, and other trust funds are properly and efficiently managed. We are conducting this hearing today to initiate an inquiry with regard to the civil service retirement trust fund. I am interested in the testimony that we will receive from the witnesses who are scheduled to appear before the subcommittee this morning.

I have many questions, concerning the details of the various transactions that have taken place. At the very least, I think we should make certain that trust fund monies removed or lost through lack of investment be returned. On a longer term basis, we may also need to consider more extensive legislation to protect these funds from future tampering by this or any future administration.

I am glad that we are able to have with us today the Associate Director of Compensation, Office of Personnel Management and a career employee, among other things, Mr. James Morrison, who is representing the Office of Personnel Management today.

Mr. Morrison, we are happy to have you, as usual, before this committee, and we thank you very much for being here.

STATEMENT OF JAMES W. MORRISON, JR., ASSOCIATE DIRECTOR FOR COMPENSATION, OFFICE OF PERSONNEL MANAGEMENT

Mr. MORRISON. Thank you for inviting me to appear today to discuss the role of the Office of Personnel Management in administering the civil service retirement and disability trust fund. I understand that you are interested particularly in discerning OPM's participation since August 1, 1985, in decisions concerning investments, transfers, or disinvestments of moneys or securities associated with the fund.

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The fund was created by the organic Civil Service Retirement Act of 1920. For most of that time, the Office of Personnel Management, and its predecessor agency, the Civil Service Commission, has been charged with administering the fund. Thus, OPM is responsible for calculating obligations to the fund, for ensuring the prompt and accurate collection of moneys due the fund, and for authorizing accurate and timely payments from the fund. By law, the Secretary of the Treasury has been responsible for investing fund assets and for managing the portfolio of securities which comprise the Civil Service Retirement and Disability Fund.

The Office of Personnel Management and the Department of the Treasury have established over time a set of working level procedures to facilitate the handling of investment transactions. Each working day, OPM notifies Treasury's finance and funding branch of the amounts collected for deposit to the fund's account. Under the direction of the Secretary of the Treasury, the designated amounts are invested daily. Each month, OPM notifies Treasury of the expected disbursements to be made for the following month and Treasury uses this information to redeem the amounts needed.

Your letter of invitation asked specifically about OPM's participation since August 1, 1985, in investment decisions. The day-to-day procedure outlined above has been followed without change. We have continued to notify Treasury of receipts and expected disbursements and Treasury has managed the investment portfolio.

Recognizing that the debt ceiling limitation might preclude full investment of yearend receipts to the fund, Director Horner wrote to Secretary Baker on September 30 asking that every possible step be taken to minimize the impact of lost interest income and that the fund be treated equally with other funds that are invested in Government securities subject to the debt ceiling. To the best of our knowledge, the civil service retirement and disability fund has been treated equitably as the investment managers at Treasury have attempted to cope with this very difficult situation.

Without question, the current debt limit crisis has resulted in lost interest income to the civil service retirement and disability fund. I will defer to the representative from the Department of the Treasury to inform the subcommittee of Treasury's specific investment, redemption, or disinvestment decisions.

However, our information indicates that at the onset of the debt limit crisis, Treasury was precluded from investing some $13 billion in yearend receipts. As of today, we understand that uninvested receipts stand at slightly less than $5 billion and we estimate that the fund has lost about $67 million in interest income.

Your letter of invitation asked about changes in the types of securities in which the fund is invested and any changes in the investment portfolio since July 30, 1985. By law, the Treasury may purchase only interest-bearing obligations of the United States or obligations guaranteed as to both principal and interest by the United States.

Over 90 percent of the fund's investments are in special par-valued, nonmarketable Federal securities as authorized by the retirement law. The law also authorizes the Secretary of the Treasury to purchase other interest-bearing or guaranteed obligations when he determines that such purchases are in the public interest.

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Again, I will defer to the Treasury representative for a detailed explanation to the subcommittee concerning the publicly reported transactions involving the fund and the use of the Federal Financing Bank borrowing authority. As we understand it, Treasury has redeemed approximately $8.7 billion of nonmarketable public debt securities held by the civil service retirement and disability fund and issued to the fund—essentially a swap—a like amount of Federal Financing Bank obligations at an identical interest rate and maturity which will result in neither a gain nor loss to the Civil Service Fund as a result of these specific transactions.

Finally, you wanted to know the balance in the civil service retirement and disability fund as of July 30 and currently. As of July 31, the fund's balance was $126.7 billion. The official balance as of September 30 was $140.9 billion.

Thank you again for the opportunity to present these views. I will be pleased to answer any questions you may have.

Ms. OAKAR. Thank you very much, Mr. Morrison.

Let me, first of all, call on my distinguished minority member of the committee, Mr. Myers, if he has an opening statement of any kind.

Mr. MYERS. Thank you, Madam Chair.

I apologize to you and the members of the committee, as well as the witnesses here, for being late. I had a group in the office and couldn't get away. I would like to welcome back our colleague, our counsel, Joe Fisher. He is taking bicycle lessons now, I understand, so he is going to be with us for awhile.

Have you ever thought about training wheels? It is nothing to laugh about. We are so glad to have him back.

Madam Chairman, I am pleased that you are having this hearing because there has been much said about divestiture and what it is going to cost the retirement program and if and when we might cure this in the future.

I understand from the testimony here that Mr. Morrison is a handler of money rather than an investor, so I guess there are not too many questions we can ask the present witness, but we thank him for his testimony.

Ms. OAKAR. Thank you, Mr. Myers.

Mr. Morrison, you indicated that the balance of the trust fund as of September 30 was $140.9 billion. What is it today? Would it be less than that amount or more?

Mr. MORRISON. It may be somewhat less because our fund decreases as a result of disbursements, except when we receive semiannual interest payments and end-of-the-year appropriation payment that are credited to the account.

So beginning September 30 it would be a large amount and decreasing by the amount of disbursements that are made each month, increasing again by whatever receipts are coming in, plus interest credited twice a year, and at the end of the year such as the $17.5 billion appropriation payment is credited.

We calculate the fund balance as these transactions occur and there is a normal drawdown of the fund's assets during periods of the year.

Ms. OAKAR. There is a normal drawdown, but in October there was an abnormal situation as well?

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Mr. MORRISON. We have the lost interest, yes.

Ms. OAKAR. You estimate the interest to be $67 million?

Mr. MORRISON. Approximately $67 million through yesterday. And that is an estimate.

Ms. OAKAR. You are the caretaker of the civil service trust fund, but you dictate policy in terms of benefits and compensation on behalf of the administration as well. I would like to know if you or anyone else at OPM was consulted by officials from the Department of Treasury when they were going to begin their action involving the redemption, disinvestment or substitution of securities or notes in the civil service retirement. Was OPM consulted in any way about that?

Mr. MORRISON. To the best of my knowledge, there was no advance consultation on this, but by the statutory responsibility invested in the Secretary of the Treasury for the money management of the investment decisions, there need not have been any consultation in advance from our perspective.

Ms. OAKAR. So you don't think there is any violation of turf at all; I am not indicating that there was, because it is my understanding. I am going to ask the individual from the Treasury Department the same question—that the civil service retirement fund was initially the fund that was not invested when the Gramm-Rudman proposal was being debated in the Senate. As I recall, the Treasury voluntarily said that we could continue the extension without closing down the Government because they had about $5 billion, and it was the civil service that they picked on first, as it turned out. Is that your understanding?

Mr. MORRISON. I have outlined the use of the Federal Financing Bank borrowing authority in my testimony, but I really should defer to the Treasury witness to give you the specifics of that transaction as well as any rationale for the priorities in terms of which investment decisions are made.

That is an appropriate Treasury responsibility, as we see it, and as far as we know they have exercised their responsibility prudently and appropriately without any violation.

Ms. OAKAR. OPM doesn't have a problem with Treasury's action?

Mr. MORRISON. We don't have a problem with the actions taken by Treasury, no. We have a problem with the debt ceiling crisis that exists and the actions that it has forced.

Ms. OAKAR. So that I understand, did the administration action, the Treasury Department's action involving the redemption, disinvestment or substitution of securities or notes in the civil service trust fund, begin September 30 or October 1, or was it earlier than that?

Mr. MORRISON. I would have to defer to Treasury on that. I think it would have been after September 30, but I would have to defer to Treasury.

Ms. OAKAR. Wouldn't you have been informed when they desisted in the usual investment of those funds?

Mr. MORRISON. We know the debt limit was breached on September 30 in terms of the investment of our full amount of yearend payments, so that we know, but in terms of the actual dates of the use of the Federal Financing Bank borrowing authority, I would have to defer to Treasury on the dates of those transactions.

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Ms. OAKAR. Your figure of $67 million is somewhat different than the figure from Treasury. How do you account for the disparity?

Mr. MORRISON. Treasury has indicated a figure for the month of October only, as we understand it, and I am giving you a figure that includes the imputed interest lost as of September 30, the month of October, and the first 5 days in November, so I have just given you an estimate.

I think we can reconcile our figures with Treasury for the different points in time.

Ms. OAKAR. By giving that figure though, aren't you almost automatically saying that there was not any kind of change in the manner of investment before September 30?

I want to make clear that you are sure of that.

Mr. MORRISON. I am not aware of any change prior to September 30.

Ms. OAKAR. Thank you very much.

We have three suspensions to vote on now, but let me yield to my colleague from Indiana.

Mr. MYERS. Thank you, Madam Chairman.

Mr. Morrison, OPM, as I understand from your testimony, notifies Treasury how much you are depositing in your account with the Treasury, as I see what the Treasury is, they are the bank. They have many accounts. As far as OPM is concerned, Treasury is responsible for that money to you, are they not?

Mr. MORRISON. Yes.

Mr. MYERS. Under the retirement law, they are required by law to make investments to increase the retirement that belongs to all civil service retirees. You are the caretaker, but the keeper of that is Treasury, so as I read into your testimony, as far as you are concerned, Treasury is responsible to you to pay back the money that you have put in there to be available for the retirees. Treasury is responsible, are they not?

Mr. MORRISON. Treasury is responsible for investing all moneys deposited that are not needed for current disbursements. There is no statutory requirement that they first invest every dollar and then redeem it. They could handle cash if needed for disbursements at the time it is collected.

Mr. MYERS. I suppose Treasury must have an investment committee. Does OPM have anybody on that investment committee, have anything to say about what type of investments or do they turn over to the Treasury sole responsibility for investments?

Mr. MORRISON. The law gives Treasury full and sole responsibility for making investments. The law also specifies the kind of securities in which Treasury can invest, so there is not the same range of discretion that you may be thinking about in other situations. We do not have a voice in the particular certificates or instruments or securities that are invested in.

Mr. MYERS. You mentioned that the money was invested in a special nonmarketable security. What is a special nonmarketable security?

Mr. MORRISON. That is a particular Treasury security that has a specified interest rate in law and a certain maturity date. Again—without getting into the details or the distinction between Treasury

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bonds and certificates of indebtedness, I would like to have Treasury explain that to you.

Mr. MYERS. I guess we have to go vote. We have some other questions here, and as the Chair has said, we have a series of votes here on suspensions. I guess it will be half an hour before we get back, but if you would stay, there are a few more questions we would like to ask you, Mr. Morrison.

At this time the subcommittee stands in recess.

[Recess.]

Ms. OAKAR. The subcommittee will reconvene.

I want to apologize to my friend and to the witnesses, but I couldn't help calling my staff—we just passed three bills on memorials, one to women who have served in the military, one to Korean war veterans and one to blacks who served in the Revolutionary War, and they all passed 406 to nothing. That is the first time that has ever happened.

I want to congratulate Mr. Frenzel's staff and my own for working so hard.

Let me just ask you two more quick questions, if I might, Mr. Morrison.

Ms. OAKAR. The funds that were disinvested on Friday, would they be used solely to pay benefits to civil service annuitants?

Mr. MORRISON. To the best of my knowledge, yes.

Ms. OAKAR. To your knowledge, has any administration previously, has any Treasury Department previously sought to disinvest funds from the civil service retirement trust fund to be used for purposes other than paying beneficiaries?

Mr. MORRISON. I do not know of any situation where the money from the trust fund has been used for other than paying beneficiaries and I don't think that this is the case now.

Ms. OAKAR. Could you supply for the committee a copy of the letter from Director Horner to Secretary Baker dated September 30?

Mr. MORRISON. I would be happy to do that for the record.

[The letter follows:]

U.S. OFFICE OF PERSONNEL MANAGEMENT,
Washington, DC, September 30, 1985.

Hon. JAMES A. BAKER III,
Secretary of the Treasury,
Washington, DC.

DEAR MR. SECRETARY: We have been informed by members of your staff that large year-end deposits of the Civil Service Retirement and Disability Fund (CSRDF) will not be invested due to the current debt ceiling limitation. Last year, the fund lost approximately $31.7 million in interest income because of similar circumstances. This year, the deposits are larger, and the potential exists for larger losses. Therefore, we request that you ensure that every possible step is taken to minimize the impact on CSRDF and that the fund is treated equally with other funds requesting investment in Government securities.

Sincerely,

CONSTANCE HORNER, *Director.*

Ms. OAKAR. Thank you very much.

Mr. Myers.

Mr. MYERS. Thank you Madam Chair.

What do you feel is the relationship that you have with Treasury?

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What responsibilities does Treasury have to OPM for those funds?

Mr. MORRISON. By law, the Secretary of Treasury is responsible for managing the investment portfolio and the Secretary of Treasury, in effect, is the fund manager in the financial sense, and so that is the relationship.

We do not have a responsibility under law for managing the fund in the context of investments. We have very heavy and substantial responsibilities with respect to ensuring that the proper obligations are calculated, that the proper amounts due the fund are quickly and properly determined and sought and that the proper disbursements are made.

The distinction is defined in the law.

Mr. MYERS. In your judgment is the retirement fund for civil service placed in jeopardy because of this disinvestment?

Mr. MORRISON. No, sir, I do not think the fund is placed in jeopardy because of the necessary actions that Treasury has taken.

Mr. MYERS. Would there be any impact, in your judgment, on this?

Mr. MORRISON. The impact is the lost interest income which we estimate through yesterday to be approximately $67 million. I mentioned that before.

Mr. MYERS. At this point, the only jeopardy or only liability would be the loss of that income, which, of course, is important to that account?

Mr. MORRISON. Yes; it is very important. I am not suggesting it is not important. I just—the word "jeopardy", I thought, was too strong a characterization of the impact of $67 million on a $140 billion fund.

Mr. MYERS. How do you know, how does OPM know the amount of money that is in that fund at any one time?

Mr. MORRISON. Well, we reconcile our collections with the official——

Mr. MYERS. That would be the principal.

Mr. MORRISON [continuing]. Treasury statements. We also get records of the amount of interest earned and those are published in the official financial Treasury statements. We, of course, publish it in the budget and we also report it to the Congress under Public Law 95–595 annually.

Mr. MYERS. Then you do get a periodic statement from Treasury of the amount of money in that particular fund?

Mr. MORRISON. Yes.

Mr. MYERS. How often is that?

Mr. MORRISON. We get at least a monthly statement that is official and periodic other reports.

Mr. MYERS. You said you were not aware of at any time the Treasury had used civil service retirement funds for any purpose other than paying civil service retirement benefits. Prior to 1968, I believe, all the funds were commingled, as I recall, and at that time Congress changed it and made it a separate liability, but I think the funds were commingled and there were no separate records kept.

In the past that has happened, but since 1968, that has not happened.

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Thank you for your testimony.

Mr. MORRISON. Thank you.

Ms. OAKAR. Thank you very much, Mr. Morrison.

Our next witness is Mr. Niehenke, who is the Deputy Assistant Secretary for Federal Finance, Department of Treasury.

Thank you for being here. It seems as if you and I have been at the same committee hearings for the last few days and I am delighted you are before our subcommittee, as well.

STATEMENT OF JOHN NIEHENKE, DEPUTY ASSISTANT SECRETARY FOR FEDERAL FINANCE, DEPARTMENT OF THE TREASURY

Mr. NIEHENKE. Thank you, Madam Chair.

Madam Chair, and members of the subcommittee, I welcome this opportunity to appear before you this morning to discuss the continuing efforts of the Treasury Department and the Secretary of the Treasury to assure persons receiving benefits and other payments from the United States that their payments will be made and honored notwithstanding congressional failure to agree on a debt limit increase. I must emphasize that we can continue to provide such assurances only through November 14, by which date Congress must act on the debt limit bill to avoid default.

On September 10, when I testified before the Senate Finance Committee urging that the debt limit bill, House Joint Resolution 372, as passed by the House, be enacted prior to September 30, I stated that "without an increase in the debt limit by that date, investment of the civil service retirement and disability fund in Treasury securities will have to be delayed to avoid exceeding the debt limit." I estimated that the cost of the delay to the civil service and two other funds would total approximately $8 million per day.

As the Chair is aware, funds other than civil service have also been adversely affected, and, moreover, our ability to operate the finances of the United States on a routine and predictable basis has been sorely strained. It is the obligation of the Secretary of the Treasury to reconcile his responsibility not to issue debt in excess of the debt limit with his concurrent obligation to manage responsibly the finances of the United States, including, in particular, the timely payment of benefits for a number of programs for which he serves as fund manager.

In balancing these responsibilities, the Secretary has made decisions based on four guidelines: First, avoid an unprecedented default on obligations of the United States; second, ensure that recipients of benefit payments receive their payments when expected; third, minimize, to the extent possible, the costs to the various funds administered by Treasury of actions taken; and fourth, stay within the debt limit.

I can report to you today that, in spite of numerous and complex problems, Treasury has, to date, managed to avoid a default, ensured that recipients of monthly payments have been paid on time, minimized the cost of actions necessary to make payments on time, and stayed within the debt limit.

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I must caution, however, that we are running out of time. Continued delay in passing a debt limit bill is unacceptable. I trust today's testimony, and testimony I will give tomorrow, will clarify what we have done and reassure you and the American public that our actions have not jeopardized the solvency of any trust funds.

But I must point out that only a prompt passage of a debt limit bill will relieve the unnecessary and unfortunate anxiety that recipients of payments from these funds are experiencing.

The civil service retirement and disability fund is established by section 8348 of title 5, United States Code. The Secretary of the Treasury is directed to take certain actions with respect to the fund, including receiving monies and investing "such currently available portions of the Fund as are not immediately required for payments from the Fund."

The investments are to be made in special obligations of the Treasury at an interest rate set monthly on the basis of a statutory formula. Unlike other trust fund statutes, the civil service fund statute does not explicitly provide for redemption of fund investments in order to pay benefits.

However, the statute does appropriate moneys in the fund for payment of benefits and administrative expenses. Since benefits cannot be paid unless investments either mature or are redeemed, it is obvious that the Secretary's authority to invest also contemplates redemption.

The civil service fund has two major sources of income—periodic payments from agencies in respect of employee salaries and lump sum payments at the end of the fiscal year in respect of unfunded liabilities. When Treasury is unconstrained in its ability to issue new debt to the fund, all this income is immediately invested in Treasury securities.

At the same time, both benefit payments and repayments of contributions to departing employees must be made from the fund. The payments vary from month to month, but are generally on the order of $2 billion per month. When payment checks or electronic funds transfers are presented to Treasury for payment, payment is made from the Treasury general cash account and investments of the fund are redeemed to reimburse the Treasury.

The vast bulk of these redemptions occur during the first 10 days of each month. Throughout August and in September until September 30, the fund was invested and redeemed as usual; there were no noninvestments or early redemptions.

Because of the relatively small scale of the daily transfers, and the concurrent redemptions, we have until now been able fully to invest the daily transfers. However, as I warned in my September 10 testimony, the failure to enact an increased debt limit by September 30 has meant that a portion of the annual lump sum payment to the civil service fund has not been invested.

Treasury transferred to the fund approximately $17 billion in respect of unfunded liabilities on September 30, on which date Treasury was already at the debt limit. Therefore, we could not invest the $17 billion at that time.

I want to emphasize that the transfer was made, it was only the investment that was delayed. Except for the interest loss discussed below, the principal amount of the fund is fully as large as it would

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have been had the increased debt limit been passed before September 30.

The civil service fund, unlike the Social Security trust funds, does not operate under the advance investment "normalized tax transfer" system. Therefore, as I stated in September, and as Secretary Baker reiterated in an October 1 letter, when the fund is uninvested, it loses interest. Because of this interest loss, as debt capacity became available during October—through redemptions to pay benefits—the fund, along with other interest-losing funds, was partially invested.

By the end of October, over $12 billion of the $17 billion transferred on September 30—in addition to the daily transfers—had been invested.

Moreover, because of the structure of the fund's portfolio, redemptions to pay benefits during October were able to be made fully out of short-term and low yield longer term obligations, avoiding the redemption of any higher yielding, long-term obligations. We estimate that the October interest loss to the civil service fund because of delayed investments and noninvestment was approximately $55 million.

In September and October, Treasury's cash balances were sufficient to permit the payment of benefits followed by redemption of obligations held by the fund, as is normal Treasury operating practice. However, as of the close of business on October 31, Treasury's cash balance was only $1.8 billion—compared with a normal cash balance on that date of between $10 and $20 billion and a minimum desirable level of $5 billion.

Treasury estimated that checks and electronic funds transfers presented for payment the next day would exceed $10 billion, including approximately $1.4 billion of civil service benefit payments and $6.9 billion of social security benefit payments. November 1 revenues were estimated to be less than $3 billion. A similar situation was projected for November 4.

In order to raise the necessary cash to make sure benefits could be paid, on October 29 and 30 Treasury auctioned obligations in the amount of $13 billion to be issued on November 1, and on October 31, Treasury auctioned an additional $4.75 billion in obligations to be issued on November 4.

Although Treasury hoped that the new debt could be issued under an increased debt limit, an increase was not enacted. Therefore, Treasury proceeded to redeem fund obligations only in an amount equal to November benefit payments in order to be able to raise cash by issuing new obligations while staying within the debt limit. Because cash-flows are uncertain within a wide margin, Treasury needed to accelerate the redemptions.

Thus, $1.513 billion in securities were redeemed from the fund on November 1; $198 million was redeemed on November 4; and $52 million is expected to be redeemed on November 8.

Under normal circumstances, $1.4 billion would have been redeemed on November 1; $225 million on November 7 and $151 million on November 8. We estimate that the interest loss to the fund from the early redemption is approximately $404,000.

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I wish to assure you that the securities redeemed on November 1 and 4 were short-term securities. Therefore, the redemption will have no adverse consequence for the fund's portfolio.

Finally, I wish to assure you that Treasury will of course comply with section 273 of House Joint Resolution 372 if it is enacted into law. That section provides for issuance of securities and transfers of funds to relieve the civil service and other funds of losses since September 1 resulting from the debt limit impasse.

The debt limit impasse has put us all in a position of facing choices we would rather not face. The Secretary has recently been faced with choosing between defaulting on all U.S. obligations, including beneficiary payments, or advancing the redemption of trust fund obligations to pay those benefits. He chose the latter course to ensure that millions of Americans would continue to receive their benefits in a timely fashion.

That completes my formal statement. I will be happy to answer any questions you may have.

Ms. OAKAR. Thank you very much.

I was pleasantly surprised, to be honest, to hear from your testimony that you had urged the Senate to pass the House simple debt ceiling extension. I didn't know the Treasury had done this. Did I hear you correctly in your testimony?

Mr. NIEHENKE. My testimony this morning?

Ms. OAKAR. Right. That you had urged them to pass a simple debt extension before the October 1 deadline.

Mr. NIEHENKE. I don't think I said that.

Ms. OAKAR. Maybe I was hearing wrong. I thought you said it. I wrote it down because I was not following your statement as you were reading from it.

Mr. NIEHENKE. I am sorry. That first-page reference, yes.

Ms. OAKAR. You did say that then. I did hear you correctly.

Mr. NIEHENKE. Yes.

Mr. MYERS. September 10, page 1.

Mr. NIEHENKE. Yes.

Ms. OAKAR. Let me ask you if you could just put this in the proper order for the committee and for our understanding.

Of course, a loss of interest is a permanent loss unless there is a vehicle for recouping that interest. So it is not a small item. I don't think we should minimize the smallness of the item.

It is our understanding that a portion of the civil service retirement trust fund was disinvested last week.

Could you inform the committee of the amount of funds disinvested and the purposes for which the funds will be used?

Mr. NIEHENKE. In the latter part of my testimony I identified the amounts that were redeemed and the dates on which they were either redeemed or are proposed to be redeemed. This accelerated redemption process is for the purpose of making benefit payments available to the recipients.

Ms. OAKAR. All right. Will the funds only be available to redeem the monthly annuity checks of civil service retirees?

Mr. NIEHENKE. As I testified in earlier committees, the Secretary of the Treasury, in attempting to ensure benefit payments during the month of November, chose to disinvest a total of $17 billion

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from several trust funds in order to make sure that those benefit payments are readily available to the recipients.

We have no way through the banking system to segregate payments for one purpose or another, but we feel that by making the aggregate of these payments available in a timely fashion that we fulfilled that obligation to make those payments available.

Ms. OAKAR. You are going to make them available, though, for the monthly annuity checks? Is that correct?

Mr. NIEHENKE. We advanced the redemption process in order to have debt capacity available to us so we could go into the market, raise money and have cash available to meet those obligations as they came due.

Ms. OAKAR. OK. I wanted to make sure because you could be using moneys coming in for other purposes besides somebody's retirement check.

Mr. NIEHENKE. The action we took was to bolster the Treasury cash balance to assure adequate moneys would be there for the timely payment of those checks.

We do not have a system whereby we can segregate that amount of money exclusively for those benefit payments.

Ms. OAKAR. Can you assure annuitants they will get their checks on time?

Mr. NIEHENKE. Absolutely. The checks have already gone out and if they are presented in a timely fashion they are going to be paid.

Ms. OAKAR. You are saying there is going to be sufficient money for the redemption of those checks.

Could you describe in detail the transaction which occurred earlier this year between the civil service retirement trust fund and the Federal Financing Bank?

Mr. NIEHENKE. Yes. We used the Federal Financing Bank borrowing authority during October. The first transaction was a $5 billion note of the Federal Financing Bank which substituted for Treasury obligations in the civil service trust fund. The interest rate on that note was identical to the Treasury obligation that was redeemed.

We then took that borrowing authority, went to the market and raised cash to get us by that early October cash negative balance problem.

Ms. OAKAR. Now, would you cite the legal authority for this transaction?

Mr. NIEHENKE. Specific legal authority?

Ms. OAKAR. Yes.

Mr. NIEHENKE. It is section 9(a) of the Federal Financing Bank Act and section 8348, title 5 of the United States Code.

Ms. OAKAR. To your knowledge, has this type of transaction ever been used before?

Mr. NIEHENKE. Not to my knowledge.

Ms. OAKAR. It has never been used before?

Mr. NIEHENKE. No.

Ms. OAKAR. Was I correct that you volunteered this information to the Senate side, that you could waylay the default of the country and that you had $5 billion that you could come up with somehow?

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Mr. NIEHENKE. Senate staff raised that possibility with us. We looked at it. We determined that it was legal and until such time as we were confronted with a negative cash balance, we articulated in letters to the Senate leadership we were reluctant to use it.

We thought it was inappropriate but if we were compelled to, we would.

Ms. OAKAR. Could you submit for our record those letters to the Senate showing that you were reluctant to use it?

Mr. NIEHENKE. Yes.

[The letters referred to follows:]

THE SECRETARY OF THE TREASURY,
Washington, DC, October 1, 1985.

Hon. ROBERT DOLE,
Majority Leader, U.S. Senate,
Washington, DC.

DEAR BOB: As I promised in my letter to you of September 25, this letter will update you on our current cash and debt estimates and thus our need for action by the Senate on legislation to increase the public debt limit.

Our current estimates still show that Treasury's cash balance will be virtually exhausted by October 7, and the situation will deteriorate sharply thereafter. Consequently, it is imperative that the Senate act on the debt limit bill by October 7. Also, as we informed you earlier, as of yesterday we have been unable to comply with statutory requirements to fully invest several trust funds, thus costing them interest earnings.

Congressional staff have inquired as to the possibility of having the Federal Financing Bank issue its own securities directly in the market as a means of raising cash while avoiding direct Treasury issues subject to the debt limit. I believe this approach presents two significant problems.

First, the legislative history of the Federal Financing Bank Act of 1973 raises questions as to whether such action would be contrary to the intent of Congress that the FFB not be used to evade the purpose of the debt limit statute. Second, it is clear that an FFB issue in the market would be a very costly means of financing, compared to Treasury borrowing, especially if such an FFB issue were required to be done on short notice without adequate market preparation. Thus a failure to act by October 7 would cost the taxpayers just as our inability to fully invest the trust funds is costing these funds right now. Hence, I believe we should avoid using the Federal Financing Bank borrowing authority for this purpose.

Accordingly, I continue to urge the Senate to act on the debt limit by October 7.

Sincerely,

JAMES A. BAKER III.

THE SECRETARY OF THE TREASURY,
Washington, DC, October 1, 1985.

Hon. ROBERT C. BYRD,
Minority Leader, U.S. Senate,
Washington, DC.

DEAR SENATOR BYRD: As I promised in my letter to you of September 25, this letter will update you on our current cash and debt estimates and thus our need for action by the Senate on legislation to increase the public debt limit.

Our current estimates still show that Treasury's cash balance will be virtually exhausted by October 7, and the situation will deteriorate sharply thereafter. Consequently, it is imperative that the Senate act on the debt limit bill by October 7. Also, as we informed you earlier, as of yesterday we have been unable to comply with statutory requirements to fully invest several trust funds, thus costing them interest earnings.

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clear that an FFB issue in the market would be a very costly means of financing, compared to Treasury borrowing, especially if such an FFB issue were required to be done on short notice without adequate market preparation. Thus a failure to act by October 7 would cost the taxpayers just as our inability to fully invest the trust funds is costing these funds right now. Hence, I believe we should avoid using the Federal Financing Bank borrowing authority for this purpose.

Accordingly, I continue to urge the Senate to act on the debt limit by October 7.

Sincerely,

JAMES A. BAKER III.

THE SECRETARY OF THE TREASURY,
Washington, DC, October 3, 1985.

Hon. ROBERT DOLE,
Majority Leader, U.S. Senate,
Washington, DC.

DEAR BOB: I am writing to emphasize the need for final action by the Congress on debt limit legislation no later than October 7.

As I indicated in my letter to you on October 1, current projections indicate that Treasury's cash balance will be virtually exhausted by October 7 and the situation will deteriorate sharply thereafter.

This means that, unless a debt limit is passed by the Congress and signed into law by the President on or before October 7, 1985 or we take unprecedented and costly measures such as using Federal Financing Bank borrowing authority, the United States could be in the position of defaulting on its obligations for the first time in history.

If the debt limit is not increased by October 7, the Government likely will be unable to meet all of its essential obligations when they fall due including social security checks, payroll checks, unemployment checks, defense contracts, and principal and interest on its securities. The full consequences of a default by the United States are impossible to predict and awesome to anticipate.

I urge the Congress to pass this legislation at the earliest possible date but under no circumstances later that October 7, 1985.

Sincerely,

JAMES A. BAKER III.

THE SECRETARY OF THE TREASURY,
Washington, DC, October 7, 1985.

Hon. ROBERT DOLE,
Majority Leader, U.S. Senate,
Washington, DC.

DEAR MR. MAJORITY LEADER: In letters dated September 25, October 1, and October 3, Secretary Baker informed you of our projection that Treasury's cash balance would be virtually exhausted unless either the Congress acts to increase the debt limit by October 7, or we take unprecedented and questionable action to use Federal Financing Bank authority. This letter is to inform you of our latest cash projection—and to repeat our request for Congressional action today.

As you know, we have already had to fail to meet certain requirements for the full investment of several trust funds—costing them approximately $8 million per day. As of this morning, we estimated that cash balances may be zero or negative tomorrow, and will certainly be negative by Wednesday.

When we formally determine that the next day's balance is to be negative, we will need to notify the Federal Reserve. It is my understanding that, upon such notification, the Federal Reserve will then have to notify the banking system not to honor any Government checks or electronic fund transfers. (It is not appropriate or administratively practicable to attempt to distinguish among classes of payment obligations—favoring some at the expense of others.) Accordingly, all those with federal payment claims—whether social security recipients or defense contractors or holders of Government securities with interest payments due—would then be unable to have those claims honored.

We continue to hope that the Congress will act promptly to avoid such an unprecedented failure of the U.S. Government to honor its obligations. If the Congress acts today, we would inform the financial markets by noon tomorrow of our intention to offer Treasury bills for sale on Wednesday. In anticipation of this financing, we and

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the Federal Reserve would then be able to manage payments on Tuesday so as to avoid a default.

In sum, unless a debt limit is passed promptly by the Congress or we take the unprecedented and questionable measure of using Federal Financing Bank borrowing authority, the United States would be in the position of defaulting on its obligations for the first time in history.

Sincerely,

RICHARD G. DARMAN, *Acting Secretary.*

THE DEPUTY SECRETARY OF THE TREASURY,
Washington, DC, October 8, 1985.

Hon. ROBERT DOLE,
U.S. Senate,
Washington, DC.

DEAR MR. MAJORITY LEADER: This note is to provide you with our latest cash projection. As of this morning, we project an ending balance for October 8 (today) of zero; and—absent remedial action—a negative ending balance for October 9 (tomorrow).

We continue to hope that the Congress will act promptly to avoid the undesirable alternatives I referred to in my letter of October 7 (either unprecedented and questionable use of Federal Financing Bank authority, or an unprecedented default by the United States). Accordingly, at noon today Treasury will release the following public statement:

"In hope that the Congress will act promptly to produce a satisfactory resolution of the current impasse concerning the statutory debt limit, the Treasury Department is today announcing its intention to offer $5 billion of Treasury bills to be auctioned on Wednesday, October 9, at 12:30 p.m."

In anticipation of action that would allow us to proceed with this financing, we and the Federal Reserve should be able to manage payments so as to avoid a default.

For all the obvious reasons, we again urge that the Congress act promptly to raise the current debt limit.

Sincerely,

RICHARD G. DARMAN, *Acting Secretary.*

TREASURY OFFERS $5,000 MILLION OF 78-DAY CASH MANAGEMENT BILLS

In hope that Congress will act promptly to produce a satisfactory resolution of the current impasse concerning the statutory debt limit, the Treasury Department is today announcing its intention to offer $5,000 million of Treasury bills to be auctioned on Wednesday, October 9, at 12:30 p.m.

The Department of the Treasury, by this public notice, invites tenders for approximately $5,000 million of 78-day Treasury bills to be issued October 9, 1985, representing an additional amount of bills dated December 27, 1984, maturing December 26, 1985 (CUBIP No. 912794 HQ 0).

Competitive tenders will be received only at the Federal Reserve Bank of New York prior to 12:30 p.m., Eastern Daylight Saving time, Wednesday, October 9, 1985. Wire and telephone tenders may be received at the discretion of the Federal Reserve Bank of New York. Each tender for the issue must be for a minimum amount of $10,000,000. Tenders over $10,000,000 must be in multiples of $1,000,000. Tenders must show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions must not be used.

Noncompetitive tenders from the public will not be accepted. Tenders will not be received at the Department of the Treasury, Washington, or at any Federal Reserve Bank or Branch other than the Federal Reserve Bank of New York.

The bills will be issued on a discount basis under competitive bidding, and at maturity their par amount will be payable without interest. The bills will be issued entirely in book-entry form in a minimum denomination of $10,000 and in any higher $5,000 multiple, on the records of the Federal Reserve Banks and Branches. Additional amounts of the bills may be issued to Federal Reserve Banks as agents for foreign and international monetary authorities at the average price of accepted competitive tenders.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions

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in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of $200 million. This information should reflect positions held as of 12:00 noon, Eastern time, on the day of the auction.

THE SECRETARY OF THE TREASURY,
Washington, DC, October 9, 1985.

Hon. ROBERT DOLE,
U.S. Senate,
Washington, DC.

DEAR BOB: The Federal Government's ending balance for October 8 ws approximately three (3) million dollars. As of this morning, we project an ending cash balance for October 9 (today) that—absent remedial action—would be negative. This is exactly consistent with the forecasts provided to you in our letters of October 7 and 8.

We continue to hope that the Congress will act promptly to provide debt ceiling relief. Faced now, however, with the obviously undersirable possibility of an unprecedented default, we feel obliged to proceed with an auction of Treasury bills on the basis outlined by the following statement, which we intend to make public at 11:00 a.m. this morning:

"The Treasury Department will conduct the auction of 78-day cash management bills as announced on October 8. We continue to hope that the Congress will act to raise the debt limit in order to allow this auction to proceed to closure without the use of Federal Financing Bank (FFB) authority. If, however, the Congress fails to raise the debt limit, Treasury will use FFB borrowing authority (which is not subject to debt limit) to issue FFB securities to substitute for existing non-marketable Treasury debt. Treasury will redeem the non-marketable debt in an amount sufficient to permit issuance of the Treasury bills being auctioned today. Accordingly, these securities will be backed by the full faith and credit of the United States and will be within the current applicable debt limit. Only in the event that Congress fails to raise the current debt limit today will this procedure be used—in order to assure that the Government can raise cash in order to avoid default."

As I indicated in my October 1 letter to you, we are reluctant to use the Federal Financing Bank authority in the manner that will be required—in order to avoid default—if the Congress does not raise the debt ceiling today. We appreciate that some members of Congress are similarly reluctant to see this FFB authority used. So, I again respectfully urge that the Congress act to relieve the current debt limit today.

Sincerely,

JAMES A. BAKER III.

TREASURY AFFIRMS OFFER OF $5,000 MILLION OF 78-DAY CASH MANAGEMENT BILLS

The Treasury Department will conduct the auction of 78-day cash management bills as announced on October 8. We continue to hope that the Congress will act to raise the debt limit in order to allow this auction to proceed to closure without the use of Federal Financing Bank (FFB) authority. If, however, the Congress fails to raise the debt limit, Treasury will use FFB borrowing authority (which is not subject to the debt limit) to issue FFB securities to substitute for existing non-marketable Treasury debt. Treasury will redeem the non-marketable debt in an amount sufficient to permit issuance of the Treasury bills being auctioned today. Accordingly, these securities will be backed by the full faith and credit of the United States and will be within the current applicable debt limit. Only in the event that Congress fails to raise the current debt limit today will this procedure be used in order to ensure that the Government can raise cash in order to avoid default.

RESULTS OF TREASURY'S AUCTION OF 78-DAY CASH MANAGEMENT BILLS

The Treasury has accepted $5,010 million of the $16,375 million of tenders received at the Federal Reserve Bank of New York for the 78-day Treasury bills to be issued October 9, 1985, and to mature December 26, 1985, auctioned today. The range of accepted bids was as follows:

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	Discount rate (percent)	Percent [1]	Price
Low	7.20	7.42	98.440
High	7.25	7.47	98.429
Average	7.23	7.44	98.434

[1] Investment rate (equivalent coupon-issue yield).

Tenders at the high discount rate were allotted 48%.

Ms. OAKAR. Maybe you are getting blamed for something you don't deserve. I am not sure. Let me ask you another question.

You specified to the subcommittee the total amount of interest lost to the trust fund as a result of the failure to disinvest or not invest normal procedures. As you know I attended a hearing in which Congressman Jones asked you a series of questions about the Social Security trust fund and the fact that his committee staff really believes that it was several months before October 1 that you were not investing properly Social Security trust funds.

I won't get into that because it is not the subject of this hearing. But when specifically did you change the investment procedure or lack of investment? Give us the specific date that you did not reinvest money.

Mr. NIEHENKE. We operated under normal procedures until September 30 when, as a result of the transfer at the end of the fiscal year of $17 billion we were frustrated from investing that sum of money. Prior to that time we acted within normal procedures in operating the fund.

Ms. OAKAR. I am sorry. Would you just repeat the last part?

Mr. NIEHENKE. Sure. The only time that we have varied in our behavior or management of the fund was as of September 30 when, due to the end of the fiscal year transfer of $17 billion, we could not invest that transfer. From that point on we carried an uninvested balance in the civil service fund, a partially uninvested balance.

Ms. OAKAR. But it was not until September 30 that you changed any kind of usual procedure.

Mr. NIEHENKE. As of September 30, due to the fact there was no debt limit relief, we could not invest the transfer of $17 billion in the civil service trust fund.

Ms. OAKAR. Would you tell us the gross amount of money lost from the trust fund? Do you agree with the figures that Mr. Morrison put forward?

Mr. NIEHENKE. I agree with Mr. Morrison. We can probably reconcile what our differences are. In my testimony I indicated that the October interest loss was approximately $55 million.

Ms. OAKAR. Is it about $8 million a day we are losing in interest? Is that a correct figure?

Mr. NIEHENKE. The $8 million number that you and I have both used in testimony and in "Qs" and "As" is the estimate that we originally gave in our September 10 testimony which estimated the daily loss for all the trust funds that were involved in this problem.

Ms. OAKAR. All right. Other than social security, though, right?

Mr. NIEHENKE. It was social security, civil service, military retirement, railroad.

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Ms. OAKAR. How much would you project the civil service trust fund is going to lose by November 15? What we are trying to get is a figure of the total loss to the trust fund.

Mr. NIEHENKE. We would estimate $10 million on the back of our envelopes right now.

Ms. OAKAR. About 10?

Mr. NIEHENKE. $10 million.

Ms. OAKAR. $10 million?

Mr. NIEHENKE. Yes.

Ms. OAKAR. Is there any other plans for further disinvestment of the trust funds before November 15?

Mr. NIEHENKE. No; there are not.

Ms. OAKAR. I assume that there were notes held by the trust fund which became due on November 1, 1985. Were these funds reinvested, and if they weren't, what is being done with these funds?

I don't understand why you couldn't reinvest them. Maybe you can explain that to me.

Mr. NIEHENKE. We have been able to operate the fund on a basis whereby we have met the daily redemption and receipt transactions. Where we have been frustrated is with regard to the transfer of the $17 billion that occurred at the end of the fiscal year. That is the real uninvested problem that we have had with regard to the civil service fund.

Ms. OAKAR. Then in terms of the lack of investment—just once again so that we get this clear—how much of that whole pot is not drawing interest?

Mr. NIEHENKE. We currently estimate that as of the November 4, about $5 billion is currently uninvested.

Ms. OAKAR. All right. Just to make sure that we have the proper figures, would you give the subcommittee the total amount of funds disinvested, the total amount of interest that has been lost to the fund as of today and the total amount of notes that were invested in the Federal Financing Bank, which is somewhat unprecedented.

Mr. NIEHENKE. OK. The amount of the fund uninvested as of November 4 was $5 billion, approximately $5 billion.

Ms. OAKAR. Right.

Mr. NIEHENKE. The amount of interest lost, as I have indicated, is estimated at about $55 million for October and I just gave you an estimate for November, to the 15th, of about $10 million.

The last question with regard to the Federal Financing Bank——

Ms. OAKAR. Right.

Mr. NIEHENKE. As of today, we have $11.1 billion in Federal Financing Bank notes in the civil service trust fund.

Ms. OAKAR. Now, lastly, you mentioned that section 273 of House Joint Resolution 372, the Jones-Oakar amendment, if enacted would restore this money. I just want to make sure for the record, do you feel the amendment is properly constructed?

I don't have pride of authorship. I just want to make sure that the funds get paid back to these trust funds. Do you feel that our amendment and the manner in which it is written, would fully recoup all the interest and principal lost as a result of the failure to invest, disinvest, redeem or any other activity caused by this debt limit crisis? If that portion was adopted, would that recoup all the money that has been lost?

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Mr. NIEHENKE. We are reviewing that particular amendment right now. It is our quick reaction that, yes, it does do the job and we would like to supply additional comments if we can be helpful in that regard.

Ms. OAKAR. We would like you to be helpful in that because I don't think it is fair not to restore that money to these trust funds.

Mr. NIEHENKE. We agree.

Ms. OAKAR. I really want to make sure that the way we have crafted that amendment, which was done under a certain degree of pressure and time restraint, will restore not only this civil service, but all the trust funds that have lost money so that we don't have to shake the faith of people any further than we already have.

Mr. NIEHENKE. We would be happy to provide any technical assistance that we can.

Ms. OAKAR. Does the administration support your position of that section?

Mr. NIEHENKE. We think that the trust fund should be restored, yes.

Ms. OAKAR. Thank you.

Mr. Myers?

Mr. MYERS. Thank you, Madam Chair.

I am getting a different picture here than I really got from the media coverage of what has happened here. Somehow I thought something illegal behind the scenes was being done here.

But as you present here this morning, and what this committee has tried to do—I guess we are in a position of trying to find out how the horse got out of the bar, who left the door open, whether it was legal, and if somebody stole the horse.

What you are saying is the horse isn't out of the barn at all; it is out grazing and is going to come back. I am a little concerned about a number of things here.

First off, apparently procedurally you did the only course of action that was available to you to keep the country running and it was legal. There is no question about that. Did you ask for an outside legal opinion from the Justice Department or someplace about the legality of your action or did you just do it inhouse?

Mr. NIEHENKE. I can inform you I consulted very heavily in this whole matter both within the Treasury and outside the Treasury, both Justice and White House counsel, and we have concluded that the actions taken by the Secretary are, in fact, legal.

With regard to the disinvestment specifically, as I have indicated before in testimony, the Secretary of the Treasury has a conflict on his hands here. In one regard, the law says he must invest the funds under his management, on the other hand, the law says he must make available funds to make payments to recipients of the monthly benefits.

The Secretary has decided to err in favor of the latter for the obvious reason. Clearly, a great deal of anxiety has been created over this whole thing and we, as I am sure you do, regret the confusion that has evolved.

What we have attempted to do is to try to manage the funds in such a way to be sure that funds are available to make the beneficiary payments as they came due in November.

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Mr. MYERS. As your role at the Treasury, and you mentioned four trust accounts that you do supervise, the military retirement, the civil service retirement, social security and railroad retirement. Are there other retirement accounts that you act as trustee?

Mr. NIEHENKE. There are many other trust funds that Treasury manages, yes, clearly not of the magnitude of the trust funds that are being discussed here.

Mr. MYERS. When the Treasury makes investments, do you segregate your investments or do you function somewhat as a banker? I use to be a banker and on our trust accounts we kept each trust account separate, the investment separate. We made investments for one trust account and didn't commingle. There were occasions where maybe we did on a large mortgage or something, but generally we kept them separate. Does the Treasury separate your investments between trust accounts?

Mr. NIEHENKE. Yes. We do segregate the assets among the various accounts.

Mr. MYERS. Have all of the trust accounts been similarly disinvested here during this period of time or have you gone after civil service and social security only?

Mr. NIEHENKE. We identified the four trust funds that we have discussed here this morning and, frankly, the reason for doing that is the magnitude of payments that are derived from those trust funds on a monthly basis and, therefore, they are the ones that are most important.

Mr. MYERS. Mr. Morrison testified earlier it is his understanding that disinvested funds from civil service were used only to pay civil service benefits. Was that an accurate statement he made?

Mr. NIEHENKE. Well, the funds were disinvested in a magnitude which would ensure that we could meet those payments. As I indicated to the Chair earlier, we cannot segregate payments in the banking system and pay one presenter of a check over another. What we could do out of an abundance of caution here is to disinvest the amount of funds we thought were necessary to meet those immediate payments and that is what we did.

Mr. MYERS. The reason I ask, you kind of lost me on page 6. In the middle paragraph you state that you did disinvest or sell, redeem funds in the amount of $1.763 billion or will have by November 6. The very last sentence under normal circumstances, and I add them up, you would have redeemed a bill, 776, which would have been $13 million more under normal circumstances than you will have in November. If this is accurate, those figures, as I interpret them, civil service has not lost a thing so far.

Mr. NIEHENKE. I think it is just a difference in interest, but we will respond more specifically.

Mr. MYERS. Would you have redeemed $13 million more than you are going to redeem? Normally if you had redeemed $13 million more—unless my math is off.

Mr. NIEHENKE. In the normal course of things we would have redeemed at a value representing the interest being accrued. I think that might be the difference between the two numbers.

Mr. MYERS. That account has not lost anything in November then. It was in October when the losses came if there were losses.

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Mr. NIEHENKE. No. We estimate the fund will lose interest in November as I testified to Madam Chairman.

Mr. MYERS. OK. Maybe I can come back to that if I have time. You know, looking at this I kind of remember again as a banker years ago my children were little and I opened savings accounts for them. When they got old enough they got a checking account.

They used to come down to the bank and say, "Dad, I want to see our money." I took them in the vault. They thought we were keeping the money in the vault with their name on it. You are operating somewhat the same today. People say we want to see our money. You are still responsible for it. You are still going to have to pay those accounts, aren't you?

Mr. NIEHENKE. That is right.

Mr. MYERS. The fact you have invested it someplace else, that is really what has happened here.

Mr. NIEHENKE. As far as the Federal Financing Bank transaction?

Mr. MYERS. Yes. Federal obligation is still the same. Nothing has changed.

Mr. NIEHENKE. That is right.

Mr. MYERS. The only difference is there will have been lost interest and Congress can remedy that, but it wouldn't cost the Treasury a penny to remedy that. It is a matter of transferring the funds because the Treasury is still going to pay interest on those obligations. What happened to those securities that you cashed? Who bought them?

Mr. NIEHENKE. Nobody. They were technically redeemed.

Mr. MYERS. Technically redeemed. So that absolutely the Treasury—it is going to make no different to the Treasury who gets that interest.

Mr. NIEHENKE. Let me put it to you this way.

If Congress acts and remedies the problem of a shortfall of interest in the trust funds, we will be the same as we would have been if we could not have operated under normal circumstances.

Mr. MYERS. If Congress acts, if we will do it—there is no reason why we can't do it—then no one will lose me. If something should happen in this intervening period right now on paper, these trust accounts have lost something.

Mr. NIEHENKE. That is right.

Mr. MYERS. But the Treasury is going to be the same regardless. You are going to pay the same amount of interest out and no matter who you pay it to so we can remedy the mistake that Congress has caused up to now to cause you to do what you have done. Really, there is absolutely no reason why anyone in the country should be frightened unless they are frightened Congress won't do anything and right now it appears that may be where we are headed.

But we can remedy what has happened and it will make no difference as far as the Treasury is concerned.

Mr. NIEHENKE. No.

Mr. MYERS. I think that is very important. One last thing. What is special nonnegotiable security?

Mr. NIEHENKE. Special nonmarketable?

Mr. MYERS. Not marketable.

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Mr. NIEHENKE. It is a security that is uniquely designed for a trust fund in that it has certain characteristics which we normally wouldn't offer the market. For example, we don't auction these securities to the trust funds. We set some formula rate as to what the rate of interest is going to be. That is based upon market experience, but nonetheless the trust fund automatically gets that rate.

Another feature the security has is what we call a par value redemption whereby we don't ask the trust fund to take the experience of the market when we redeem securities. We automatically redeem them par so they don't run the risk of a loss, the difference between market value and the face value of the security.

So they are securities basically designed for a trust fund-like purpose. We normally wouldn't offer them to the public.

Mr. MYERS. I am sure you are familiar with Fed funds. The bankers trade is. Is that something similar to Fed funds where we just go on short terms and help somebody over the weekends?

Mr. NIEHENKE. No. We are creating real Treasury obligations with unique features. They are the same as any Treasury bill or Treasury note and bond, the same obligation. They have different features to make the trust funds work more efficiently.

Mr. MYERS. Are they interestbearing?

Mr. NIEHENKE. They are interest-bearing certificates, yes.

Mr. MYERS. To the term whether it be Treasury bills or bonds?

Mr. NIEHENKE. There is a formula rate that determines what that rate is going to be. I think it is a 4-year maturity rate that is used.

Mr. MYERS. All of them are 4 year?

Mr. NIEHENKE. Four year, yes.

Mr. MYERS. I thought you said short term.

Mr. NIEHENKE. The duration of the instrument might be as short as a month, but it carries a 4-year rate. That is determined by law.

Mr. MYERS. How often is that determined?

Mr. NIEHENKE. Monthly.

Mr. MYERS. So if we are in and out or out and in over a period of a month there would be no loss to the retirement accounts if Congress acts within this month to restore that, buy back—there would be no loss of interest. The rate would be the same then during this month.

Mr. NIEHENKE. The way the language is crafted, it goes back and recreates the transaction as it should have occurred; so, yes.

Mr. MYERS. The rate would be the same, too?

Mr. NIEHENKE. The rate available will be the rate that should have been available when that investment was made.

Mr. MYERS. In the debate on the floor there was concern that the rate would go down or go up.

Mr. NIEHENKE. I think there were some questions with regard to the Social Security trust fund which are not the same, which are not applicable here.

Mr. MYERS. You don't handle Social Security the same way then. All four of these accounts aren't handled the same way?

Mr. NIEHENKE. Let me respond, the Social Security trust fund is unique and all other funds are pretty much handled the same way. Is that fair, Madam Chair?

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Mr. MYERS. It may be fair, but I don't understand it. I am an old country banker. I don't understand all these highfalutin terms.

Mr. NIEHENKE. The civil service fund is operated pretty much in the way all other funds operate. The Social Security fund has special features unique to it and does not look exactly like the civil service trust fund in operation.

Mr. MYERS. I know it is not the responsibility of this subcommittee, but as a Member of Congress, I am concerned about Social Security, too. Is there—if the Chair may permit me—is there going to be a loss to Social Security then because of this disinvestment? Could there be?

Mr. NIEHENKE. The Social Security trust fund is in a different position. Because the Social Security trust fund has a device which I referred to in testimony called the normalized tax transfer, as we have been unable to invest that fund, we will be able to recover that loss later in the year. The law permits us to do that.

With regard to the question regarding the early November period and the accelerated redemption of securities, Social Security loses like the civil service trust fund loses. There is an ancillary question in the Social Security trust fund as to whether some redemptions made in September and October will cause some interest loss going forward.

That is a question of some disagreement right now as to whether or not there will be a loss.

Mr. MYERS. If you cannot answer this, I will understand. Should Congress remedy and correct this open-ended situation, we have today where Treasury would be precluded in the future from doing this and force Congress to take action in the future to keep you from disinvesting or do you think this is a practice that should be allowed in the future?

Mr. NIEHENKE. Well, it is a practice that we do not enjoy and did not envision, but one that we embraced when we were confronted with the default-like circumstance. I don't think you are referring to Madam Chair's amendment in this regard, are you? Are you going beyond that?

Mr. MYERS. Should we put a new lock on the barn door so the horse can't get out in the future? I use the vernacular of Indiana.

Mr. NIEHENKE. That is up to Congress to decide. We will be happy to cooperate.

Mr. MYERS. Do you think there is unfair exposure here to the civil service retirees and many other retirees in the country depending on those programs? Is there an undue exposure here we should remedy to keep this from happening in the future?

Mr. NIEHENKE. We would be happy to talk with you about that and try to determine if there is some legislation we can create to cause this not to happen again.

Mr. MYERS. I guess your answer is, yes, there could be some improvement.

Mr. NIEHENKE. Yes, I think there could be.

Mr. MYERS. OK. Thank you.

Ms. OAKAR. Thank you.

If I could just clarify one point in response to a question asked by Mr. Myers. The only way you can redeem the interest that has been technically lost by a number of trust funds, including civil

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service, is to pass a bill that contains language similar to or the same as the language that Congressman Jones and I put in one version of a debt ceiling bill that was passed by the House, at least last week. Am I correct about that?

Mr. NIEHENKE. I believe so.

Ms. OAKAR. But just passing, at this point, even a simple debt limit extension does not redeem that money, right?

Mr. NIEHENKE. Does not have that effect.

Ms. OAKAR. I want to make sure because I am not sure if the new Senate version has that provision. Interest to the trust funds is forever lost even though it is still floating around somewhere in the big pot, so to speak. That is the only clarification I wanted to make.

Mr. MYERS. If the Chair would yield, it is not going to cost the taxpayers of the country any more money because it is already an obligation of the Federal Government and it is a matter of who they pay that interest to. It is a remedy that should be taken care of, but it is not going to cost anymore.

Mr. NIEHENKE. It will put us where we were.

Mr. MYERS. The Treasury is going to pay it out and it might as well go to these accounts where it rightfully belongs.

Ms. OAKAR. I feel strongly that all the trust funds ought to get the money back. I think it shakes the faith of the American people if we don't do that. There are a lot of rumors about how trust funds are manipulated. I think to an extent there was manipulation in this, not that it was necessarily intentional on Treasury's part. I am just saying it was unprecedented in terms of what you did.

Mr. NIEHENKE. It was extraordinary, yes.

Ms. OAKAR. I would have hoped maybe you would have said no; that we never did it before and we just don't think we should do it now. But I guess you reserved the prerogative. However, it is done, and we have got to rectify it. That is our responsibility.

Thank you very much.

Our next witness is Mr. L.J. Andolsek, the president of the National Association of Retired Federal Employees. The Chair understands it is your birthday. Happy birthday.

STATEMENT OF L.J. ANDOLSEK, PRESIDENT, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES, ACCOMPANIED BY TOM TRABUCCO

Mr. ANDOLSEK. Seventy-five years old, Madam Chair.

Ms. OAKAR. The fastest growing population in the country is over 85.

We will be happy to hear from you.

Mr. MYERS. It is my wife's birthday, too, today, but you have got her by a year.

Mr. ANDOLSEK. Great. Good day, too. November 6 is great.

Madam Chairman, I am pleased to be here. I am Lud Andolsek. With me I have Tom Trabucco who does not need any introduction on the Hill.

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It is a pleasure and privilege to appear before your subcommittee to examine the impact of recent financial transactions involving the civil service retirement trust fund.

First of all, I must say we feel somewhat reprieved. Over the past 5 years, NARFE has refuted orchestrated charges that our trust fund was either bankrupt or bankrupting the Nation. We denied these administration charges because they were untrue. Now recent events have demonstrated that our fund is not only healthy, but indeed strong enough to save the Nation from bankruptcy.

I am referring to press reports that securities of the trust funds were being used to meet the financial obligations of the Government. We were obviously concerned, However, rather than frighten retirees who are scared to death now with strident actions such as rushing into court or making shrill statements to the press, we decided to file an inquiry with the Treasury Department regarding the impact of these actions.

That was more than 2 weeks ago. We are trying to get the same information, Congressman Myers, that you were trying to get. We have yet—we have yet to receive the courtesy of a response. This is one reason we welcome this oversight hearing.

This process allows us to determine the impact of recent actions and seek corrective measures. The issues you specifically asked us to address—insuring that no interest on fund assets be lost—is an important one. The trust funds on which our Nation's elderly rely for their income have been used to keep the Government from defaulting.

Although I vehemently disagree with the legislative legerdemain which brought us to the brink of default, it would be unpatriotic to oppose the use of any of our Nation's available assets to meet this crisis. But we cross the line from use to abuse if the trust funds are not made whole when this crisis is over.

Just like the Social Security trust fund, the civil service trust fund must be reimbursed for the interest lost through a failure to immediately invest contributions or through disinvestment of fund assets. We support that provision in the House bill. We support that. But with that said, I must also state, that is the only provision we can support in the House bill. And I must ask when will the chicanery stop.

Some have argued that the budget deficit results from a "buy now, pay later" attitude. But the congressional response is a "cut now, pain later" approach. Is the pain equally shared? Not on your life.

Not in the Senate bill, and certainly not in the House bill. Events have again conspired to jeopardize the security and, yes, dignity of Federal retirees, and I must sadly note that many of our long-time friends in Congress have aided and abetted that conspiracy. By making cuts automatic after protecting certain specific large cost but politically popular programs, this legislation would eliminate most if not all inflation protection for Federal retirees during the next 5 years.

Just this year Congress went on record and supported equal COLA treatment for all non-means-tested Federal retirement benefit programs. Believe me, this is all that Federal retirees have requested—equal treatment. But the legislation this House has

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passed makes that pledge meaningless, would probably deny us any inflation protection for 5 years, and moreover could even be used to withdraw that inflation catchup for Federal retirees due to become effective in about 3 weeks from now.

Most of the Nation is aware that 5 days ago the Social Security trust fund was tapped to finance some Government operations. But few outside this room are aware that the civil service retirement trust fund was used, beginning weeks ago, for the same purpose.

Our trust fund was the first one used to prevent our Government's default. Now, in the proposals being considered for purportedly balancing the budget, the Congress seems willing to default on the trust of Federal retirees that they will be treated equally with Social Security recipients. We would be among the first and among the few to be abandoned to inflation. Our trust fund has been used by the Government. Now our trust in that same Government is being abused.

Madam Chairwoman, we support legislation which would ensure that each trust fund which has been used to keep this Nation from default be made whole and suffer no loss of interest. But we believe it is just as important that the individuals who rely on each of those trust funds for their retirement income, be equally ensured against suffering from inflation.

We vehemently oppose the Gramm-Rudman-Hollings amendment and any other proposal which protects certain favored programs while virtually mandating deep cuts elsewhere. If this Congress is serious about deficit reduction, it should take direct across-the-board action. Failure or fear to do so has given us the proposals now before us, which can only be called bad legislation at its worst.

Madam Chair, I need to add, until now our deep displeasure over recent years has been uttered like a voice in the wilderness, but your hearing today has given us the opportunity to publicly present the message we have been conveying through letters, telegrams, and personal meetings. We sincerely appreciate your scheduling this hearing in such a timely fashion.

We thank you and we want you to know that we are very grateful and we will be pleased to answer any questions you may have.

Mr. MYERS [presiding]. Thank you, Mr. Andolsek, for your very fine statement. It was necessary for the Chair to go to the floor. She was involved in some colloquy there.

Mr. ANDOLSEK. I put in 12½ years up here, so I know what the problems are.

Mr. MYERS. She has one question. Her question is, given our experience over the past few weeks of the clear intents of Congress, this trust fund should be used solely for the benefit of civil service retirees, would you recommend any measures for further protection of that fund?

Mr. ANDOLSEK. I am glad there was an asset and, as I said, any asset that the Government has should be used by the Treasury in a crisis. I am grateful they had this opportunity. I am more disturbed that the situation was presented by other agencies of the Government that made this crisis possible.

I think we should have long ago cut back some of the excessive spending. We should have corrected the 1981 tax breaks to the big corporations and give everybody a fair chance to participate in

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solving this thing. Thirty-six million recipients of Social Security and 2 million of us, and military retirees aren't going to save this country.

It is going to take all of America to work together. I hope the administration would start thinking about restoring the taxes. I am a great believer in what the Citizens for Tax Justice have put out briefly saying in the sixties our economy was going well, the people were working, the companies put in about one quarter of the income tax pie. We as individual taxpayers put in about 50 percent, and then the Government and other sources of income to get the other 25 percent.

Now, after the 1981 tax bill with the breaks in there, the corporate structure of America is paying about 7 or 8 percent of the taxes. The individual taxpayer is still paying 50 percent—and I have no objection to millionaires, believe me.

As I said, I wouldn't have to go to college to learn how to live like one, I just have to learn how to make the money so I can live that way. All the assets of this great country, should be used to take this country out of the crisis.

Mr. MYERS. Her question, I don't think you have quite answered yet—a few years ago we added 3 more months to the fiscal year so we could have a little more time to function in Congress to get our work done. Here we are more than a month into the new fiscal year and we have only signed into law one appropriation bill. The debt ceiling was not a big problem a few years ago, but it has become more acute.

So likely we will come back in the same position maybe sometime in a year or so and her question is—I think it is a good one—should Congress prevent the disinvestment of funds in the future so this same thing won't happen again?

Mr. ANDOLSEK. I would agree on that. I think also Congress should discipline themselves. When we changed the schedule of the fiscal year there was talk the bills would be resolved 6 months before the end of the fiscal year on appropriation bills and I don't think we have done one since then.

But I think Congress should discipline itself a little bit with all the work they do, give some priority to the appropriations of these agencies. This is the only way to truly resolve these problems.

Mr. MYERS. Too many years ago we learned about continuing resolutions. Now they become a way of life.

Thank you very much, Mr. Andolsek.

Mr. ANDOLSEK. When I was on the commission it was difficult to get authorization to proceed on the same schedule as we did the previous year. I think the agency should have, and then hold their feet to the fire, their appropriations before the fiscal year starts.

Mr. MYERS. Thank you, Mr. Andolsek.

Next witness will be Vincent Sombrotto.

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STATEMENT OF VINCENT R. SOMBROTTO, CHAIRMAN, FUND FOR ASSURING AN INDEPENDENT RETIREMENT, AND PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS, AFL–CIO, ACCOMPANIED BY GEORGE GOULD, LEGISLATIVE ASSISTANT

Mr. SOMBROTTO. Good morning. With me on my left is my legislative assistant, George Gould.

Mr. MYERS. I have seen him around someplace. Glad to have you, George.

Mr. SOMBROTTO. Madam Chair, my name is Vincent Sombrotto. I am chairman of FAIR, the Fund for Assuring an Independent Retirement. The FAIR coalition represents 28 organizations with over 2 million Federal and postal employees and retirees.

Thank you, Madam Chair, for calling this important and timely hearing. At this time I want to thank you and Representative Fazio—and a few others—for bravely fighting for equity of treatment for Federal and postal retirees in the debt ceiling conference committee which is dealing with the Gramm-Rudman-Hollings amendment. I am here in support of the Jones-Oakar provision, H.R. 3634.

However, there should be no need for this hearing. We have a legislative process for budgetary matters. We followed that process. A budget was agreed upon. Reconciliation recently passed the House and currently is before the Senate.

Gramm-Rudman-Hollings represents a radical change from that process, as does the House sponsored "alternative." They substitute expedience for expertise, and disorder for deliberation. Nowhere is that clearer than in the use of civil service retirement funds to pay general Treasury debts.

It was never intended to be a general slush fund. Yet $16 billion of that money has not been reinvested since October 1. The fund is losing $4.5 million per day in lost interest.

Part of the billions taken out of the trust funds to cover the debt includes money for civil service retirees. Yet hardly a word is heard about us. Without your legislative relief, that money is permanently lost from retirees' lives. We used to fight the COLA battle twice a year; now must we fight the entire budget battle twice a year?

As you know, we played by the rules each year and got singled out for excess cuts. Quite frankly, we are dismayed and outraged that this year the House of Representatives is complying in singling out our programs. We are being used as a scapegoat. Some members think we represent an easy target whenever money is needed.

There is no pretense of fairness. Social Security COLA's are preserved by the Senate. The House saves COLA's for veterans. The President covets defense contractors, welfare for corporations and wealthy individuals. As a matter of fact, so many areas of the budget have been removed form the table that retirement for elderly Federal and postal personnel becomes a prime target.

Are we less equal? Less needy for COLA's? Don't we have the same rights as other Americans?

Evidently not, Madam Chair. Some Members of Congress will accuse us of not cooperating. It is a variation of the "they don't

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work hard and their retirement is too expensive" theme. We are hard-working Americans who, when we do cooperate, find ourselves left "on the table" considered prime beef for budget knives.

I consider it ironic—after all the times our programs have been ravaged and singled out for more cuts—to once again subject us to another loss: earned retirement.

But who suffers from this fiasco? In this case, it is not just us. The people of this country suffer and democracy as an institution suffers. I have been out of Washington recently, and I can assure you that Federal workers are upset at our Government. They are disillusioned. Government, they say, is playing with our lives in a devastating manner.

And the "balanced budget" amendments prove that they are correct.

Thank you for your help. I will be glad to answer your questions.

Mr. MYERS. Thank you, Mr. Sombrotto.

Ms. Oakar has a question.

From your testimony we can derive that you think something should be done. What type of legislation do you think is necessary to prevent this kind of occurrence in the future?

Mr. SOMBROTTO. I don't know that any legislation is needed if Congress and the administration acts in accordance with the laws that are presently on the books.

Mr. MYERS. Apparently from the testimony this morning, the Treasury said they had the power to divest these funds or use the funds temporarily. They have, they say, legal opinions that they have that power using the present laws.

Congress is trying to exercise between the other body and the House its responsibilities on the debt ceiling. It has been unable to come to some resolution of that, and it is likely to happen in the future. History has a way of repeating itself. So do you think in the future we have the stalemate and have the funds used temporarily as they have been used this time?

Mr. SOMBROTTO. We would not be in this predicament if everybody acted responsibly. The laws currently on the books as dealing with the budget are certainly adequate to reconcile these differences. The fact that the debt ceiling is being held hostage to some mickey-mouse scheme to try to balance the budget in 1990 or 1991 is a result of chicanery that is being perpetrated on the American public.

If that wasn't the case, we wouldn't be dealing with this. But in the event that, unhappily, that this kind of a process continues, obviously there should be some legislation that prevents what is happening now with the trust funds.

We support the Oakar-Jones amendment as we said in our testimony.

Mr. MYERS. I have no questions, but think the Oakar-Jones amendment will be passed to reinvest and to recover the interest lost on both the amount of money that has not been invested and that has been divested, so I think you are quite right on that.

Thank you very much for your testimony. The meeting will stand adjourned until the call of the Chair.

[Whereupon, at 12:07 p.m. the subcommittee adjourned subject to the call of the Chair.]

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[The following statements were received for the record:]

STATEMENT BY REPRESENTATIVE VIC FAZIO AND REPRESENTATIVE MICHAEL D. BARNES

We strongly support the provisions of Section 273 of the Democratic alternative to H.J. Res. 372, the Debt Limit bill, which passed the House last Friday. That section requires the Secretary of the Treasury to reissue obligations identical to those redeemed since September 1, 1985 and to pay an amount—determined by the Secretary of the Treasury—equal to the net interest that would have been paid but for the disinvestments.

Many Members had not been aware that, along with Social Security trust funds, obligations held by the Civil Service Retirement Trust Fund, the Railroad Retirement Account, the Military Retirement Trust Fund, and the Supplementary Medical Insurance Trust Fund were redeemed in order to enable the government to continue to borrow funds as needed. Thanks to your leadership, we have now been informed that $16 billion held by the Civil Service Retirement Trust Fund had not been reinvested along with an additional $10 billion from the Military Trust Fund and another $2 billion held by the Federal Supplementary Medical Insurance Fund. Since October 1st, the failure to invest these funds has cost the Civil Service Retirement Trust Fund roughly $8 million a day.

We deeply regret that efforts to force feed Congress with artificial, ill-defined, ill-devised, and thoroughly indigestable budget reforms compelled the Administration to bind itself to a choice between the economic consequences of government defaulting on its obligations—which economists warned could destabilize the economy—together with yet another government shutdown, or the option of setting a terrible precedent by dipping into the Trust Funds.

We're afraid that the Gramm-Rudman plan would continue to pose this kind of "no-win" choice. It certainly confirms the view that it's impossible to control policies engineered in haste once they've gained momentum in the wrong direction.

In recent years, the Federal Government Service Task Force, which we chair, together with this Subcommittee, has worked to dispel the many misstatements that had been made about the solvency of the Civil Service Retirement Trust Fund. In designing the supplemental retirement plan for Federal employees covered by social security, this Committee took great pains to craft a bill that signaled to employees and retirees that the Trust Fund would remain stable and that it would include funds from both the old and the new systems.

Even while government's redemption of obligations held by the Trust Fund, however, the Civil Service Retirement Trust Fund remains solvent and stable. Section 273 simply establishes the important corrective precedent that Congress must make any trust fund whole from which it borrow. Federal employees count on the Federal government to keep its commitments thirty years from now and have a right to expect that what they've earned will be fully preserved.

Thank you for the opportunity to share these views with you. We look forward to working with you to ensure that these trust funds are fully restored.

TESTIMONY OF MOE BILLER, PRESIDENT AMERICAN POSTAL WORKERS UNION, AFL-CIO

Madam Chair and members of the Subcommittee, I appreciate the opportunity to present the views of the American Postal Workers Union and represent APWU's 330,000 members.

First of all, I want to thank you for your steadfast support for postal and federal retirees in the Debt Limit Conference Committee and the Oaker-Jones amendment to the House-adopted version of H.J. Res. 372. Your amendment, which would require the Treasury to restore to the Civil Service and other Government trust funds any principal and interest lost through noninvestment, redemption or dis-investment is both necessary and fair. It protects the integrity of the trust funds and the retirement security of the postal and federal workers. It would be a distortion of reality to bail out this Administration's irresponsible budget deficits by damaging the retirement security of retired and active postal and federal employees.

The misuse of the Civil Service Retirement Trust Funds has very serious consequences and is a symptom of a much larger problem. Tired and frustrated by the Reagan budget deficits, the Senate has thrown up its hands and proposed a new budgetary process which would impose reductions in government spending without the political accountability of the current budget process. To our tremendous disappointment, the House has gone along with the idea, softening it with protections for some vulnerable groups but not others. Both the House and Senate preserve COLAs for Social Security and the House proposal saves COLAS for veterans and limits re-

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ductions for other income security programs. Once again postal and federal employees are being targeted for reduced benefits. There will be money to pay for commitments to defense contractors but there will be no COLAs to pay for commitments to postal and federal retirees who have dedicated their lives to public service employment with the understanding that they would receive a decent retirement income.

Apparently, some Senators and Members of Congress believe that the good will of postal and federal employees is endless. Some even wonder why employee morale is low! This is naive thinking, Madam Chair. Just this August, the Congress supported equal treatment for all federal COLAs and now appears willing to reverse that position 3 months later. The government-as-employer is abusing the trust and understanding of its employees.

The American Postal Workers Union supports the Oaker/Jones legislation which would restore the losses to the Civil Service Retirement and Social Security Trust Funds. We very much appreciate the efforts to shore up the faith of postal and federal employees in the security of their retirement.

Unfortunately, a much larger task remains. We cannot envision any way to redesign the meat ax approach of the Gramm-Rudman amendment so that it would be fair. APWU urges the Congress to defeat the Gramm-Rudman amendment.

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